Michigan Entrepreneurship Score Card, 2004 - 2005

State of Michigan Compared with all U.S. States

Prepared for the Small Business Foundation of Michigan

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The Bottom Line

1. Overall, Michigan's Economy gets a ***C*** grade
2. Its best performance is in Education and Workforce.
3. Michigan is performing about the same as surrounding states; its challenge is to leapfrog competitors; Goal: Become one of the top 5 states in entrepreneurial dynamism.
4. Economic dynamism a real worry; entrepreneurial vitality and supporting business finance deserves special attention.
5. Next push for Michigan's economic development: "inside out" approach to balance "outside in" business recruitment.
6. Next Step: Pick sub-driver (s) / metrics that leaders can / must influence and go after aggressively.

Outline

- **Michigan's Businesses: Numbers and Growth**
- **Michigan Entrepreneurship Score Card Structure**
- **How to Interpret Results**
- **Michigan's Grades**
- **Surrounding, Comparator and Top States**
- **Toward an Innovation Economy**
- **Next Steps in Benchmarking**
- **So What! Why Are You Doing This? How Do You Use it to Advantage?**
- **Discussion**

Michigan's Businesses: Numbers and Growth (cont.)

Michigan's Business Growth

Select Groups by Establishment Size	Average Annual Growth (1998 – 2002)	
	U.S	**MI**
1 - 19	-0.1%	+0.02%
20 – 49	+0.7%	+0.04%
50 -99	+0.4%	0.0%
100 - 249	-0.4%	-0.3%
250 – 449	-0.9%	-1.4%
500+	-0.3%	-2.3%

Michigan's Businesses: Numbers and Growth

Michigan's Small Business Scene

IRS 2003	197,625 Michigan Corporations
	82, 092 Partnerships
U.S. Census of "Non-employer" Business 2002	555,736 "Non-employer" Establishments

Definitions

Employees	1-19	Micro-business
Employees	1-99	Small Business
Employees	100 – 499	Medium-size Business
Employees	500+	Large Business
Employees	Less than 500	"Small" by SBA definition (98.4% of MI business)

State Innovation and Entrepreneurship Score Card Structure

- Uses Common Set of 116 metrics for all states
- Desired Outcome: Entrepreneurial Dynamism
- First Order Drivers: Small Business Activity; Entrepreneurial Climate
- Second Order Drivers: Education and Workforce Development; Business Costs and Productivity; Government Efficiency and Regulatory Environment; Infrastructure; Quality of Life.
- Comparison with similar national report cards.
- Comparison with surrounding & comparator states.
- Adapted from the State Competitiveness Score Card developed for the Indiana Chamber of Commerce
- Data: 3 years of comparative data.

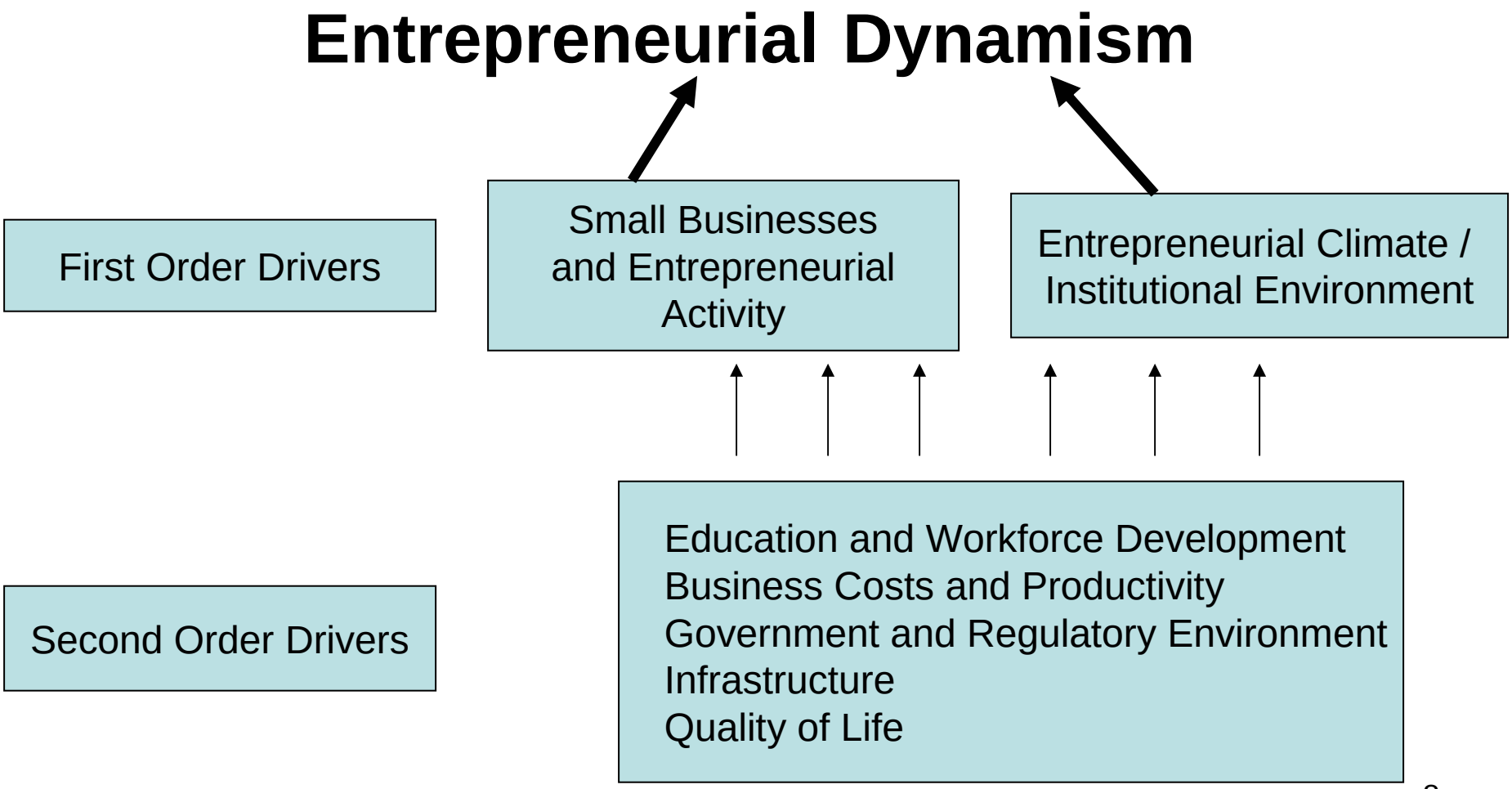
Score Card Structure (cont.)

Desired Outcome: Entrepreneurial Dynamism

Metrics:

- Growth of Small Businesses
- Growth in Fast-growing Firms
- New Business Churn Growth
- Small Business Payroll Growth
- Non-wage Income Growth

Score Card Structure (cont.)



Score Card Structure (cont.)

First Order Drivers & Sub-Drivers

Small Business and Entrepreneurial Activity

Entrepreneurial Climate / Institutional Environment

- Ideas and innovation
- Financial and Institutional Capital
- General Dynamism

Score Card Structure (cont.)

Second Order Drivers & Sub Drivers

Education & Workforce Development
- K-12
- Post-Secondary
- Workforce

Business Costs & Productivity
- Business Costs
- Productivity

Government & Regulatory Environment
- Government Efficiency
- Regulatory Environment

Infrastructure and Quality of Life
- Physical Infrastructure
- Digital Infrastructure

Score Card Structure (cont.)

Second Order Drivers & Sub Drivers

Quality of Life

- Household Economic Indicators
- Health
- Environmental Quality
- Public Safety
- Leisure and Entertainment
- Outdoor Recreation
- Diversity / Equity
- Civic Energy

Sample Metric Page

Patents

Number of patents per 100,000 workers, 2003

Patent activity signals an inventive economic base. In the innovation economy, a high rate of inventiveness is key to wealth and value creation. Patent activity is regarded as one of the preferred indicators.

The table at right shows the number of patents awarded to individuals or companies in each state per 100,000 employed individuals.

	State	Patents per 100,000 employed	Change, 2000-2003 (%)
	United States	*59.82*	*-0.8%*
1st Quintile	Idaho	232.68	14.0%
1st Quintile	California	113.24	8.9%
1st Quintile	Vermont	113.04	7.3%
1st Quintile	Massachusetts	104.35	5.2%
1st Quintile	Minnesota	96.40	3.0%
2nd Quintile	Connecticut	92.08	-9.9%
2nd Quintile	New Hampshire	90.29	-0.3%
2nd Quintile	Oregon	89.83	24.3%
2nd Quintile	New Jersey	84.62	-11.1%
2nd Quintile	Colorado	80.22	10.2%
2nd Quintile	**Michigan**	**78.29**	**3.4%**
2nd Quintile	Delaware	74.63	-17.4%
3rd Quintile	Washington	72.26	19.8%
3rd Quintile	New York	66.97	-5.2%
3rd Quintile	Wisconsin	62.52	-0.5%

How to Interpret Results

- Grades provide position relative to other states
- Grades offer indications of progress 2002 – 2004
- Compare results with other nationally reputable score cards
- Compare with other competitiveness studies / research, e.g. by Michigan Future.
- Match up sub-driver (s) / metrics with goals / initiatives in State's economic development plan
- Use to identify the leading states by sub--driver and learn from them

Michigan's Grades

Michigan is "Average"

with a C Grade

	2004	2003	2002
Overall Grade	**C**	**C**	**C-**
Entrepreneurial Dynamism	F	D-	F
Small Business and Entrepreneurial Activity	D-	F	F
Entrepreneurial Climate / Institutional Environment	C	C+	C
Education & Workforce	B+	B+	B+
Business Costs & Productivity	C-	C-	C-
Government Efficiency & Regulatory Environment	C-	C-	C-
Infrastructure	C	B-	C
Quality of Life	C	C-	C

Michigan's Grades (cont.)

Bottom Line:

In the last business cycle (1992 – 2001) the U.S. economy showed signs of a marked transformation (more than the dot.com boom) - - significant improvements in productivity, rapid growth of new products and new companies, high demand for "knowledge workers" - - all signs of the innovation economy. Michigan, like its nearby competitor Midwest states has underperformed such states as WA, CO, MA, VA, CA, UT, DE, IA.

Michigan's Grades (cont.)

Performance on Sub-Drivers is Mixed

	2004	2003	2002
Entrepreneurial Climate / Institutional Environment	**C**	**C+**	**C**
Ideas and Innovation	B	A	B+
Financial & Institutional Capital	F	F	F
General Dynamism	C	C	C

"There is substantial room for improvement, especially in Financial and Institutional Capital"

Michigan's Grades (cont.)

Performance on Sub-Drivers is Mixed

	2004	2003	2002
Education & Workforce	**B+**	**B+**	**B+**
K-12	C+	B-	B-
Post-Secondary	A-	A-	A-
Workforce	B	B	B

"K-12 needs more focus to maintain and improve on the other areas"

Michigan's Grades (cont.)

Performance on Sub-Drivers is Mixed (cont.)

	2004	2003	2002
Business Costs & Productivity	**C-**	**C-**	**C-**
Business Costs	D-	D-	F
Productivity	C+	B-	B-

"High Business Costs remain cause for concern"

Michigan's Grades (cont.)

Performance on Sub-Drivers is Mixed (cont.)

	2004	2003	2002
Government & Regulatory Environment	C-	C-	C-
Government Efficiency	C-	C	B-
Regulatory Environment	D+	D	D-

"A moderately efficient government but is the regulatory environment flexible enough?"

Michigan's Grades (cont.)

Performance on Sub-Drivers is Mixed (cont.)

	2004	2003	2002
Infrastructure	**C**	**B-**	**C**
Physical	B	B	B
Digital	D-	C-	F

"Digital Infrastructure, the infrastructure of the innovation economy, is weak"

Michigan's Grades (cont.)

Performance on Sub-Drivers is Mixed (cont.)

	2004	2003	2002
Quality of Life	**C**	**C-**	**C**
Household Economic Indicators	B-	B	B
Health	C	D+	D
Environmental Quality	C	D+	D
Public Safety	B+	A-	A-
Leisure and Entertainment	D	D	D
Outdoor Recreation	D	D	D
Diversity / Equality	D+	F	C+
Civic Energy	C	D	C

"Although economically attractive and a safe place to live, many other quality of life aspects suffer"

Bottom Line

Michigan does not have a strong hold against its competitors. Post-secondary education, workforce, physical infrastructure, as well as two quality of life indicators, household economic indicators and public safety, are above average.

Digital infrastructure, regulatory environment and most importantly business costs, a critical attribute of growth economies, remain weaknesses.

Financial and Institutional Capital and Entrepreneurial Dynamism deserve special attention.

Surrounding States

	2004	2003	2002
Michigan	**C**	**C**	**C-**
Illinois	C+	C+	C+
Indiana	C-	C-	C-
Ohio	C	C	C-
Pennsylvania	C	C	C+
Wisconsin	C-	C	C

Comparator States

	2004	2003	2002
Colorado	B+	B	B+
Virginia	B	B	B-
Maryland	B	B+	B
Massachusetts	B	B+	B+
California	B-	B-	B
Washington	C+	B-	C+
Texas	C+	C+	C
Illinois	C+	C+	C+
Florida	C	C	C
Minnesota	C	B-	B-
Arizona	C	C+	C+
Pennsylvania	C	C	C+
Georgia	C	C	C-
Ohio	C	C	C-
North Carolina	C	C	B-
Michigan	**C**	**C**	**C-**
Indiana	C-	C-	C-
Wisconsin	C-	C	C

Top States

2004 State Competitiveness Score Card (The Competitiveness Group)		2004 **Development Report Card (CFED)**
CO	DE	**CT**
VA	MA	**DE**
MD	CA	**MA**
UT	ND	**MN**
SD	MT	**NH**

Bottom Line

The similar or better performance of surrounding and competitor states creates a keen competitive environment going forward.

It also creates an opportunity to become the preeminent turnaround state in the Midwest using entrepreneurialism, innovation and investment as engines of growth.

Toward An Innovation / Entrepreneurial Economy

Lots of names for what is going on:

Few sure answers as to how to survive and flourish. *This Score Card* implies several next "bold steps"

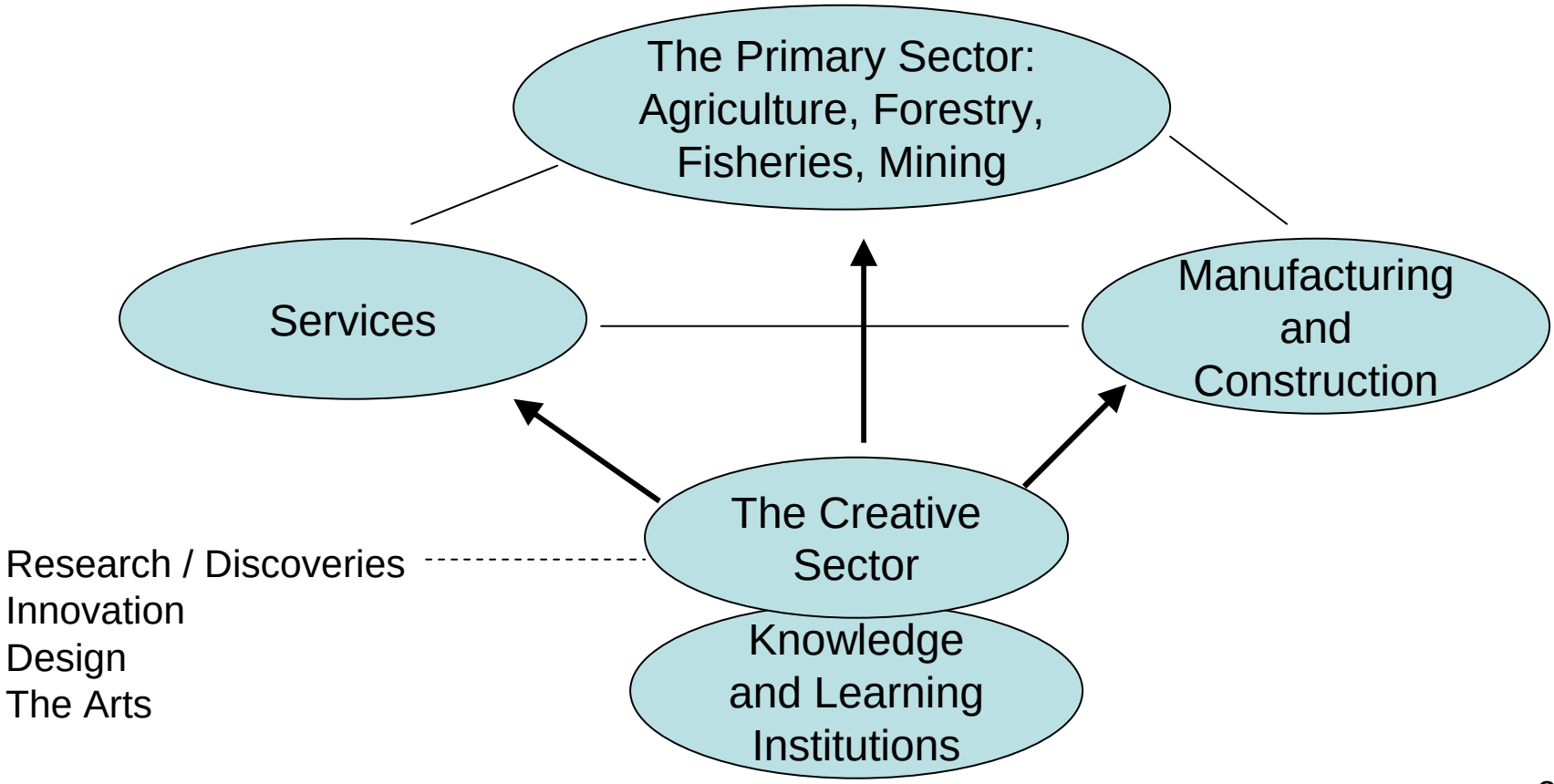
Toward An Innovation Economy (cont.)

> "the capacity and capability to create and innovate new ideas, thoughts, processes and products and to translate these into economic value and wealth"
>
> - The *World Knowledge Competitiveness Index* -

The Innovation Economy is very fluid, unpredictable (Schumpeter: "the gales of creative destruction"). Best suited to localities, states, nations that provide solid economic foundations for very agile firms and talent-acquiring workers. Not suited to heavy-handed public sector direction --operates too slowly and lacks market signals. Many states and localities are getting it wrong – a real opportunity to get it right!

Toward an Innovation Economy (cont.)

Today's primary economic sectors



Toward an Innovation Economy (cont.)

The Response

1. Innovation and Entrepreneurialism are long-term strategies to transform the economy
2. Main principles of Innovation Development:
   - Still need continuing attention to maintaining a competitive cost environment for businesses
   - Innovation development and entrepreneurialism are as much about attitude as about economics and attitude can be learned and changed
   - Educational institutions play a critical role
   - Innovation can be stifled if diversity and social equity is not fully embraced
   - Innovation development calls for innovative government

Toward an Innovation Economy (Cont.)

Some Initiatives for High Return

- Organize state government around what matters to the innovation economy: Adult learning (technical and further education); entrepreneurial education; small business development and “growth from within”; business and industry liaison (engaged S & L government).
- Structure the tax system to achieve a predictable revenue base, while “incentivizing” productive investment, especially in growth companies.

Toward on Innovation Economy (Cont.)

- Empower “Regional Investment Consortia” (business – education – government-civic partnerships) to address infrastructure, quality of life.
- Improve access to affordable strategic intelligence by small / mid-size enterprises.
- Accelerate the spin-off of new discoveries from institutions of higher learning and orphan technologies from companies.
- Find ways to accelerate wide-spread broadband deployment.
- Continue to internationalize.
- Find a way to do the GEM (Global Entrepreneurship Monitor) survey in the State of Michigan, providing international comparisons.
- Look for ways to transform the entrepreneurial culture of the state through educational programs

Next Steps in Benchmarking (Learn from Singapore!)

- Take this stuff very seriously!
- Metrics are a first step
- Next, pick the sub-driver (s) / metrics you must / can change
- Identify and learn from leading states in your select sub-driver / metrics
- Set up task / action forces around each select sub-driver / metric
- Make high energy, focused improvements that will change your score

So What! Why Are You Doing This? How Do You Use It to Advantage?

Why?

- To set the bar with good numbers which can frame the debate
- As the numbers gain acceptance as credible, the debate changes to the real issues
- Annual updates bring repeat attention to changing situations.

How to Use

- Seek improvement suggestions for next year's Score Card.
- Highlight strengths and weakness - - don't focus solely on the downside
- Highlight areas that offer near term prospects for improvement
- Learn from the leaders in select metrics / sub-drivers; go visit them (peer review trips)
- Provide newsworthy articles on the Score Card throughout the year

Discussion

- Is the State Innovation and Entrepreneurship Score Card useful as an annual tracking device?
- How can it be adapted further to suit the needs of Michigan as it focuses on “next economy” growth?
- How do you take benchmarking to action?

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